

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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The Hamas invasion of Israel is a game changer...
Not only for the Mideast but all countries.
It shows some groups using terrorism and hostages to
get what they want... a new world order via disorder.

WAR IN MIDEAST Israeli officials say this will be a “long war” and that means *potential* developments that could impact the U.S., especially on the energy supply and demand front.

Key crude oil market questions:

- Will the conflict spread?
- Crude traders do not expect a significant surge in oil prices now because there is no immediate threat to the oil supply. But their attention is on Iran, a major oil producer and a key supporter of the Hamas group responsible for the recent offensive against Israel.

- Will Israel respond by striking Iranian infrastructure?
- A retaliatory strike against the Islamic Republic would inflame fears over the Strait of Hormuz, the vital shipping artery which Tehran has previously threatened to shutter. Tankers haul nearly 17 mil. barrels of crude and condensate each day through the waterway.

- Will the U.S. crack down again on a resurgent flow of Iranian oil exports?

Iranian security officials helped plan Hamas’ surprise attack on Israel and gave the green light for the assault at a meeting in Beirut last Monday, the (WSJ) reported... citing senior members of Hamas and Hezbollah, another Iran-backed militant group. Senior Israeli security officials have pledged to strike at Iran’s leadership if Tehran is found responsible for killing Israelis.

The Biden administration lacks “direct information” linking Tehran to the assault, said Deputy National Security Adviser Jonathan Finer. But others said both Israeli and U.S. intelligence had no idea of the Hamas attacks and that their intelligence is lacking.

The invasion will have U.S. policy impacts as in part it was aimed at disrupting accelerating U.S.-brokered talks to normalize relations between Saudi Arabia and Israel that Iran saw as threatening, according to senior Hamas and Hezbollah members cited by WSJ.

The U.S. has no Senate-confirmed ambassador to Israel, despite President Joe Biden nominating former Treasury Secretary Jack Lew in early September. Sen. Tommy Tuberville (R-Ala.) is still blockading senior military promotions, which Pentagon officials have warned is damaging U.S. national security policy. However, some GOP supporters note if Democrats just abandoned their abortion policy, he would lift the hold. They chide the Biden administration for choosing abortion over U.S. national security. The Senate is on recess this week.

The U.S. pledged to send additional munitions and military assets to Israel and is moving Navy warships closer to Israel in a show of support.

ISSUES IN MIDEAST WAR

- Analysts and traders are focused on whether Israel will retaliate against Iran, which some say helped plan the attacks. That could drive oil prices even higher.

- Fourteen U.S. citizens have been killed in the fighting between Hamas and Israel, the State Department confirmed, but it did not provide further details about the circumstances of the deaths. Some U.S. citizens aren’t accounted for, “and we are working with our Israeli partners to determine their whereabouts,” a State Dept. official said.

- “This is an enormous intelligence failure by the Israelis and the Americans,” Bruce Riedel, a former CIA officer and Middle East specialist, told *NBC’s* Peter Nicholas and Natasha Korecki. “I don’t see any reason to believe that either Washington or Jerusalem had any expectation this was coming.”

- Helima Croft, RBC Capital Markets’ head of global commodity strategy, said the conflict puts the Saudi Arabia/Israel deal in a precarious position. With the Israeli government vowing an unprecedented response, “it is hard to envision how Saudi normalization talks can run on a parallel track.”

Source: Ag Letter editors, media reports

MEAT
INDUSTRY

Major meatpacking plants in the U.S. shut down due to slipping demand and rising costs, affecting small town economies. Tyson, Perdue Farms and Smithfield Foods are shuttering their plants across the U.S. due to declining demand and persistent cost challenges.

This move is causing economic concerns for small towns where these meatpacking facilities serve as significant employers, customers, and essential contributors to the local tax base, the *Wall Street Journal* reports.

Tyson is working to assist displaced workers in finding new employment opportunities and highlights its substantial annual economic impact on the communities it serves, estimated at over \$27 billion.

Of note: This comes when USDA Secretary Tom Vilsack over the past year has released millions of dollars to expand small and medium meat processing facilities.

U.S. TRADE
GAP

U.S. trade gap narrows to \$58.3 bil. in August 2023, lowest since September 2020. The U.S. trade deficit decreased to \$58.3 bil. in August 2023, marking the lowest level since September 2020 and surpassing earlier forecasts of a \$62.3 bil. deficit. This improvement was driven by a combination of rising exports and declining imports.

Key points:

- Export Growth: Exports surged 1.6% to reach \$256 bil., marking a five-month high. Leading the way were exports of crude oil, travel (reaching levels not seen since December 2019), fuel oil, computer accessories, pharmaceutical preparations, semiconductors and financial services. However, exports of passenger cars, trucks, buses and special purpose vehicles experienced declines. Exports of foods, feeds and beverages were the lowest since August 2020.

- Import Decrease: Imports, on the other hand, declined 0.7% to \$314.3 billion. Notably, imports of cell phones and other household goods, semiconductors and electric apparatus decreased. However, imports of crude oil, finished metal shapes, travel and transport recorded increases.

- Improved Balance with China: The trade deficit with China notably narrowed by \$1.3 bil., reaching a five-month low of \$22.7 billion. This improvement was attributed to a \$0.2 bil. decrease in exports to \$10.9 bil. and a \$1.4 bil. drop in imports to \$33.7 billion.

Bottom line: The shrinking trade deficit suggests a healthier balance in the U.S. trade relationship, driven by a boost in exports and a reduction in imports. This development may have implications for the broader economic landscape and trade policies moving forward.

AG TRADE
GAP

U.S. ag trade records third consecutive deficit despite increased exports. In August, the U.S. ag sector witnessed a notable improvement in its exports, reaching a value of \$12.48 bil., compared to \$12.17 bil. in July. However, this boost in exports was overshadowed by a surge in imports, which amounted to \$16.10 bil., up from \$15.75 bil. in July. As a result, the U.S. ag trade deficit for August hit a record high of \$3.62 billion. This marked the third consecutive month in which the sector experienced a trade deficit exceeding \$3 billion.

Fiscal year (FY) 2023 has seen a total of seven monthly trade deficits, tying the previous record set in FY 2022. Cumulatively, agricultural exports in FY 2023 have reached \$166.02 bil., while imports stand at \$180.03 bil., leading to a trade deficit of \$14.01 billion.

A substantial ag trade deficit: USDA projects ag exports for FY 2023 will reach \$177.5 bil., while imports are expected to surge to a record high of \$196.5 bil., resulting in a substantial trade gap of \$19 billion. Achieving these forecasted levels would require agricultural exports in September to reach \$11.48 bil., with imports totaling \$16.47 billion. Historically, U.S. ag exports tend to decline in value during September. But USDA's overall forecasts align closely with what is anticipated to be the final result.

The U.S. has now recorded ag trade deficits in three out of the last five fiscal years, with the exact magnitude of the shortfall being the only remaining question.

Looking ahead, the outlook for U.S. ag trade appears less favorable, as USDA expects exports to decrease to \$172 bil. in FY 2024, while imports are projected to reach a new record of \$199.5 billion. This scenario would leave a substantial shortfall of \$27.5 bil. in the trade balance.

The somber ag trade forecasts will likely put more pressure on the Biden administration to alter its trade policy to increase markets access for U.S. farm products.

ENERGY

OPEC raised forecasts for global oil demand to the middle of the century. Consumption will climb 16% to reach 116 mil. barrels a day in 2045, about 6 mil. a day above its prior forecast.

Road transportation, petrochemicals and aviation will drive the growth, it said. India represents the biggest expansion, more than doubling its consumption to almost 12 mil. barrels a day, followed by China, with a gain of 4 mil. a day, or 26%. "There has been pushback against the opinion that the world should see the back of fossil fuels, as policies and targets for other energies falter due to costs and a more nuanced understanding of the scale of the energy challenges," OPEC Secretary-General Haitham Al Ghais said.

OPEC also boosted projections for how much oil it will supply in coming years, even though most of its members... hobbled by underinvestment, operational disruptions and political instability... aren't currently able to pump at their full production quotas. It sees OPEC liquids supply rising roughly 14% to 38.9 mil. barrels a day by the end of the decade, reaching 46.1 mil. a day in 2045.

But the International Energy Agency predicts a peak in oil demand before 2030. Its leader called the current state the "beginning of the end" of the fossil fuel era.

MARKETS

Corn: Harvest pressure remains the main market factor, weighing on prices. And there has been little on the weather side that has temporarily halted harvest progress. The rise in supplies linked to harvest has weighed on prices, which has managed to spark demand for U.S.-origin corn. There are also some mild concerns about dryness in South America. But U.S. harvest remains a key factor.

Soybeans: Much like corn, there has been little to slow the march of combines through Midwest fields this season. That has put pressure on prices and brought some improvement in demand by foreign buyers. But the low water levels on the Mississippi River have created logistical problems and reduced the ability of U.S. soybeans to attract foreign buyers.

Wheat: Geopolitical concerns... from Black Sea tensions to now the situation in the Middle East... have given wheat a short-term boost. There has also been some demand appearing for U.S. supplies, particularly from China, which has also provided support. Winter wheat planting has moved along near the average pace so far this fall.

Rice: Rough rice futures have not moved a great deal as fundamentals have wrestled for market direction. Harvest pressure has kept a lid on rice futures. Global developments remain price positive, with several Asian countries taking steps to boost their supplies amid tightening output outside the U.S.

Cotton: Macroeconomic conditions have provided price pressure for cotton that has largely offset support from expected lower U.S. production. Demand for U.S.-origin cotton has remained solid, but China has also turned its attention to supplies from Australia as relations between the two countries have continued to thaw.

Dairy: Negative margins continue to impact dairy producers, with some likely opting to exit the business in the months ahead. That does not mean those cows will head to market...they could still move to other operations. Still, record-high slaughter prices have continued to pull cows out of herds. But milk prices have not yet responded to the upside.

Cattle/Beef: Live cattle futures started October with selling pressure despite continued tight supplies. That has brought futures near oversold territory, which should prompt some buyers to step in. August beef exports were up from July but still remain below year-ago marks by some 20% as lofty U.S. prices have curtailed buyer interest.

Hogs/Pork: The Hogs & Pigs Report to close out September did not indicate that hog producers were in contraction to the degree that markets expected. That bearish read prompted pressure on lean hog futures. Seasonal declines in product demand and losses in cash are likely to keep a lid on lean hog futures ahead.

Poultry: Turkey supplies are considerably above year-ago as we get closer to the key Thanksgiving holiday in large part due to a lack of highly pathogenic avian influenza. This contrasts with culls that kept turkey supplies tight going into the holidays last year. But there has been at least one new HPAI find in turkeys, so there is some caution possible for the turkey market.

TAXES

Potential tax changes as 2017 cuts approach expiration. As many provisions of the 2017 tax overhaul law are set to expire at the end of 2025, retirees and near-retirees are being advised to consider their tax strategies. Key recommendations from financial advisers include:

- Income Taxes: Income-tax brackets are expected to revert to pre-2017 levels in 2025, affecting most taxpayers. Retirees near peak earnings level could see the highest income-tax increase. Advisers suggest considering a Roth IRA conversion to take advantage of lower tax rates.
- Estate Taxes: The estate-tax exemption for individuals and couples may be reduced significantly if the tax law expires. Advisers recommend creating trusts to transfer assets that might be subject to taxes after 2025.
- Gifts: Individuals and couples can reduce their taxable estates by giving away money and assets while alive. Special rules for “529” education-savings plans and strategic gifting can help shrink taxable estates.
- Charitable Giving: The tax law increased the annual deduction limit for cash contributions to public charities. Consider making cash donations to charities now to maximize deductions.

Bottom line: Financial advisers stress the importance of acting promptly, as Congress may not extend these tax cuts... procrastination could result in significant financial consequences.

RICE INDUSTRY

Indonesia to increase rice imports to address drought-induced crop declines. Indonesia is planning to boost its rice imports in 2023 by an additional 1.5 mil. metric tons, increasing the initial import quota of 2 mil. metric tons and carrying over 300,000 metric tons from the previous year’s import plan. Acting Agriculture Minister Arief Prasetyo Adi stated that 600,000 metric tons of the additional rice imports have already been procured from Thailand and Vietnam and are expected to arrive by year-end. However, he did not specify the source for the remaining supplies.

This move aims to address crop declines caused by drought, following several Asian nations increasing rice imports to compensate for production shortfalls or reduce domestic rice prices.

CHINA

China’s economy faces threats without reform, report warns. A recent report titled “Running out of road: China Pathfinder 2023 annual scorecard” by the Washington-based think tank Atlantic Council GeoEconomics Center and research organization Rhodium Group has raised concerns about China’s economic stability and global position.

The report highlights several key issues facing the world’s second-largest economy, attributing its current economic woes to a failure in implementing necessary reforms. The challenges include a troubled property market, an aging population, declining foreign investment, rising state ownership in key industries, and unpredictable regulatory developments.

The report predicts that China’s economic growth will be less than 4% in 2023, significantly lower than Beijing’s official target, and calls for structural reforms, such as privatizing state assets and reforming the pension system. It also suggests that China’s ambition to surpass the U.S. as the world’s largest economy by the end of the 2020s is unlikely to materialize.

TRADE POLICY

U.S. and U.K. to initiate trade talks, but ag remains a point of contention. The U.S. and U.K. are preparing to commence trade talks via the U.S./U.K. Trade Partnership Forum (TPF). These talks are expected to begin this month... first chapters completed by early next year.

TPF aims to address non-tariff trade barriers, economic standards, and various non-tariff issues. Unlike free trade agreements (FTAs), TPFs do not include tariff reductions and do not require approval by Congress.

Agriculture has historically been a sticking point in U.S./U.K. trade talks, and while TPFs are easier to negotiate, agriculture issues are expected to persist as a contentious topic. U.S. lawmakers have been pressing for broader FTAs, which include new market access commitments.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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